

VZCZCXRO7758  
RR RUEHRG  
DE RUEHRI #0084/01 0551053  
ZNR UUUUU ZZH  
R 241053Z FEB 06  
FM AMCONSUL RIO DE JANEIRO  
TO RUEHC/SECSTATE WASHDC 2192  
INFO RUEHBR/AMEMBASSY BRASILIA 8649  
RUEHLP/AMEMBASSY LA PAZ 0278  
RUEHCV/AMEMBASSY CARACAS 0293  
RUEHBU/AMEMBASSY BUENOS AIRES 0432  
RUEHAC/AMEMBASSY ASUNCION 0296  
RUEHMN/AMEMBASSY MONTEVIDEO 0304  
RUEHRG/AMCONSUL RECIFE 2305  
RUEHSO/AMCONSUL SAO PAULO 3869  
RHEHNSC/NSC WASHDC  
RHEBAAA/USDOE WASHDC  
RUCPDOG/USDOC WASHDC

UNCLAS SECTION 01 OF 02 RIO DE JANEIRO 000084

SIPDIS

SIPDIS

STATE FOR WHA/BSC AND WHA/AND  
NSC FOR CRONIN  
DOE FOR SLADISLAW, GWARD  
STATE PASS OPIC FOR RGREENBERG, DMORONESE  
STATE PASS EXIM FOR NATALIE WEISS, COCONNER  
STATE PASS USTR - MSULLIVAN  
USDOC FOR 3134/USFCS/OIO/WH/EOLSON  
USDOC FOR 4332/ITA/MAC/WH/OLAC/MWARD

E.O. 12958: N/A

TAGS: [EPET](#) [ENRG](#) [BR](#)

SUBJECT: The State of Rio de Janeiro's Biodiesel Program

¶1. Summary. In terms of monetary support for biodiesel, the state of Rio de Janeiro is out in front of the Brazilian federal government. The Rio State program includes research, tax breaks, and production support, combined with more ambitious targets in terms of the percentage of biodiesel mixed into regular diesel than that required by federal authorities. Mission believes that joint activities on biodiesel might be a possible subject of bilateral cooperation between Brazilian government entities (both state and federal) and USDOE. End Summary.

#### State Support for Biodiesel

¶2. The conventional thinking here is that biodiesel, which can cost upwards of double the price of petroleum diesel (this would depend on the vegetable oil used as well as the current price of petroleum), will only be widely used if the Brazilian government subsidizes its price. The Rio state government has an active biodiesel effort "RioBiodiesel." In 2003, the German government made a comparative analysis between Rio's and Germany's biodiesel, Rio's biodiesel coming out on top, having fewer tryglicerides in the mix than the German biodiesel (the German's have since addressed this issue). The state is not only involved in research on biodiesel, but will also play an important role in its production. The State's Agricultural Secretariat has set aside 500 hectares in the northern part of the state for growing castor oil plants, along with sunflowers, to be used in producing biodiesel. The goal for 2008 is to set aside 20,000 hectares. The State of Rio has already invested approximately USD 60,000 in the construction of two semi-pilot castor oil facilities for the production of vegetable oil for biodiesel in the municipalities of Itaocara and Campos.

¶3. Comment. The choice of Itaocara and Campos for semi-pilot castor oil facilities does not appear to have been based on agronomic suitability. Castor bean and sunflower production can be expected to be marginal on the humid tropical lowland soils of the northern part of Rio State where sugar cane cultivation predominates. The State Agricultural Secretariat faces the

daunting challenge of developing producer incentives and introducing new crop technologies to poor farmers in this region, prior to state and federal science officials being able to go to scale with ambitious plans for biodiesel production. End Comment.

¶4. Meanwhile, Rio State reportedly will invest R\$6 million (approximately USD 2.7 million) in infrastructure to implement production units of Biodiesel in the cities of Campos, Resende, Duque de Caxias and in the city of Rio. This money will come from Brazil's Ministry of Science and Technology (MCT) and the Rio State Secretariat for Science and Technology. For the past three years, Rio state has invested R\$ 1.4 billion (approximately USD 636 million) in the RioBiodiesel Program.

#### Tax Breaks

¶5. The State of Rio de Janeiro will soon announce a state tax exemption for the biodiesel production chain. According to the Coordinator of the RioBiodiesel Program, Eduardo Cavalcanti, the goal behind this measure is to make business related to the production of biofuels in the state more attractive. The Rio State Secretariat for Science and Technology is currently working with the State Secretariat for Finance and with the National Treasury Council to obtain approval for the approval tax exemption.

#### Consumption and Production

¶6. On January 25, 2006, the Rio State launched the first biodiesel public transportation bus in Brazil. It will be tested for about 60 kilometers with a 5% mixture of biodiesel produced by the Federal Engineering Post Graduate University (COPPE) and compared with regular diesel supplied by Shell. In contrast to

RIO DE JAN 00000084 002 OF 002

other states in Brazil that have abundant sources of castor oil and other oil seeds, the Rio biodiesel developed by COPPE is a biofuel produced out of raw materials such as bovine fat, sewage scum/foam, residual cooking oil, and vegetable oil.

¶7. Federal Law 11.097/2005 establishes minimum percentages for the use of biodiesel in diesel fuel. This ranges from 2 percent from 2006 to 2007 (optional), 2 percent from 2008 to 2012 (mandatory), and from 2013 on, the minimum percentage would be 5 percent (mandatory). However, the State of Rio de Janeiro has decided to take a more ambitious approach, and plans to mix 5 percent of biodiesel to petroleum diesel by 2008.

¶8. The state of Rio consumes 2 billion/liters of petroleum diesel per year or 160 million/liters per month, which represents 5 percent of all diesel consumed in Brazil. The Rio state government alone consumes 6.5 million/liters per year. Rio state government preliminary estimates indicate that Rio state will produce 4 million liters/per month of biodiesel in 2007, and 8 million liters/per month in 2008.

#### Benefits for Rio

¶9. Biodiesel production actively promotes job creation in Rio state as it is three times more labor intensive per unit of production than fossil fuel. The state believes that during the period 2006-2008, 5,000 jobs will be created in the interior of the state as a result of biodiesel production.

¶10. This cable was coordinated with AmEmbassy Brasilia.

ATKINS